

**MINISTERIAL STATEMENT**  
**ON THE**  
**RE-CLASSIFICATION OF ZAMBIA AS A LOW-INCOME COUNTRY BY WORLD**  
**BANK AND TAX COLLECTION PERFORMANCE AGAINST SET TARGETS BY ZAMBIA**  
**REVENUE AUTHORITY**

Madam Speaker, let me begin by thanking you for according me this opportunity to brief this House on two important issues. The first one is the re-classification of Zambia as a low-income country from lower middle-income status by the World Bank and the second one is to clarify tax collection performance by the Zambia Revenue Authority (ZRA) against targets.

In my address, I will begin by stating clearly how the World Bank classifies countries. Consequent sections of my address will be on the implications of the classifications, and then more importantly, what we, as a country, must do to improve our standing among the nations. With regard to tax collection figures by the ZRA, I will provide the figures of the collections by the ZRA against the targets that were met.

Madam Speaker, so let me start then with the re-classification of Zambia as a low income country. The World Bank assigns the world's economies to four income groups, namely low, lower-middle, upper-middle and high income. This is something that occurs even in our country, where we have the high class; commonly referred to as the *apamwambas*, those in between; commonly referred to as the middle class, as well as those without significant means.

Madam, the World Bank undertakes these classifications every year and updates the classifications on 1<sup>st</sup> July, based on the Gross National Income (GNI) per capita or per person, of the previous year. By focusing on each citizen of a country, the method used by the World Bank provides information about the income levels of people in a country and, therefore, enables comparison among nations. I will not delve too much into the complexities of the calculation.

Madam Speaker, for the 2022 classifications, which are based on the performance in 2021, the World Bank used the following thresholds to classify countries:

- (a) low income countries – those are the ones with less than US\$1,085 GNI per capita;
- (b) lower middle income – these countries where the average income per person lies between US\$1,086 and all the way up to US\$4,255;
- (c) upper middle-income – this is where the average person earns between US\$4,256 and all the way up to US\$13,205; and
- (d) high income – these are countries where the average income per person is above US\$13,205.

Madam Speaker, coming to our country, Zambia had a GNI per capita income of US \$1,040 in 2021, which, obviously, means that it falls in the category of US\$1,005. So, this US\$1,040 is lower than what it was in 2020, when it was US\$1,190. Despite positive growth in 2021, the economic challenges of the past years and the continued sharp depreciation of the Kwacha against the United States (US) Dollar meant that we were less well-off.

Madam Speaker, Zambia was among the three countries in the world that were reclassified to a lower income group, the others being Lebanon, from upper middle income to lower middle-income, and Palau, from high income to upper middle income.

Madam Speaker, the reclassification of the country has occurred ten years after the country was upgraded to lower middle-income status in 2011, based on the performance of 2010. In other words, in 2011, we moved from low income to a lower middle income country. That was a promotion. This year, because of what I have just described, we are back to where we were before 2020, in the low income category or group.

Madam Speaker, prior to attaining lower middle income status in 2011, real Gross Domestic Product (GDP) growth averaged 8.7 per cent per year. In other words, the economy was always growing at an average of 8.7 per cent. The exchange rate moved, but not very significantly from an average of K3.6 per US\$1 in 2006 to K4.8 for US\$1 in 2010. Further, the inflation rate was in single digits for four out of the five-year period, except at the end of 2008 when it was recorded at 16.6 per cent.

Madam Speaker, the troublesome period leading to where we are was, especially, between 2017 and 2022 during which the real GDP grew only at an average of 2 per cent. Remember those days, I said average growth was 8.7 per cent, but over the period 2017 to 2021, the average growth rate was only 2 per cent. The average exchange rate of the Kwacha to the US Dollar was K9.55 in 2017 and then in 2021, it averaged K19.91 per US\$1, but, of course, we know that in reality, it even reached almost K24 to US\$1. The inflation rate rose from 6.5 per cent in December 2017 to 16.4 per cent in December 2021.

Madam Speaker, I will not delve into what happened to other economic matrices over this period, such as debt ratios and fiscal deficits. The bottom line is that we observed a deterioration in economic performance, particularly so between the period 2017 and 2021.

Madam Speaker, what are the lessons and implications of the reclassification? We learn important lessons from this and macroeconomic stability, including growing the economy, should be the utmost thing in our minds. We are in a global village and our standing among the nations is determined by the actions that we take. A second lesson is that we must focus on the bigger picture of growing our economy and improving the livelihood of Zambians through a stable macroeconomic environment and, again, the world is watching.

Madam Speaker, arising from the reclassification, there is no immediate implication on the lending category by the World Bank for the financial year 2023, which begins on 1<sup>st</sup> July, 2022. It actually already began. For the purpose of lending, the country has to be above or below operational cut-off points being US\$1,255 GNI per capita for three consecutive years for the

World Bank to change the lending category. Given that Zambia's GNI per capita is now US\$1,040, which is below the operational cut-off point for a second year in a row, Zambia is considered a blend country, meaning a mixture. This means it can access both concessional and non-concessional financing. Should Zambia's GNI per capita for 2022 remain below the operational cut-off point again, then, Zambia will move from being a blend country, and the World Bank terms which are very concessional for the fiscal year 2024, then, begin in 2023.

In essence, Madam Speaker, if our income remains below operational cut-off point for three consecutive years, this is a confirmation that a country's credit worthiness has been eroded. Accessing financing from the concessional window will imply cheaper interest rate for the country as the terms will be lower. Further, the reclassification may reduce the lenders that provided grants and financing to low income countries to review the policies in the country and resume grant financing. In other words, give free gifts. This might be more helpful for Zambia, given the high indebtedness in the country.

On the negative side, Madam Speaker, the level of resources we can access for development will now be less, as we cannot borrow non-concessional loans even if our debt crisis is resolved. Another implication is that we must do more to attain the Vision 2030, as this action shows that we have gravitated away from the progress we ought to have achieved.

Madam Speaker, the New Dawn Administration started the economic transformation of the country in August 2021. The focus has been to stabilise the economy. Thus far, the Government has managed to bring down the inflation rate, stabilised the exchange rate and controlled Government borrowing, resulting in lower cost of funds. We have also introduced free education, decentralised resource disbursement, through the Constituency Development Fund (CDF), and scaled up social sector spending. Recruitment of teachers and health personnel is close to fruition and the successful applicants will be announced in the next few days.

Over the medium-term, Madam Speaker, the Government has drawn up the Eighth National Development Plan (ENDP), which will be implemented so that we enhance and foster higher growth by focusing on the main sectors of agriculture, agro-processing, mining, manufacturing and tourism. Further, we have embarked on a multi-pronged approach to improve the financial and economic governance of the country, which includes the following:

- (a) there is a return to debt sustainability;
- (b) we are gradually and sustainably improving public finances through revenue enhancement and expenditure rationalisation;
- (c) we are enhancing commitment controls and reducing wasteful expenditure; and
- (d) the fight against corruption is being enhanced.

In the continued spirit of upscaling transparency, we have made public the above and other measures that we will undertake in the medium-term.

Madam Speaker, I am confident that next year, we will have a better assessment by the World Bank and get back right on track towards meeting the loud and clear aspirations of the Zambian people, as contained in the Vision 2030.

Madam Speaker, let me now move to the second part of the presentation, which is on tax collections. This is in response to the hon. Member of Parliament for Kantanshi in relation to a point of procedure raised by Hon. Chitotela.

Madam Speaker, I wish to state that the revenue figures that we will put to question are not mysterious figures, as some may want them portrayed. When this House approved the 2022 Budget in December last year, revenue estimates under the mandate of the ZRA were approved by this House and stood at K91 billion. For the first half of the year, the ZRA was expected to collect about K46 billion, which is about 50 per cent of the target for the year. The ZRA has collected K48.3 billion, which is more than what they were expected to collect for the first half of the year.

I wish to advise the House that the revenues collected by the ZRA are monitored by the ministry on a daily basis, as they are credited to the Treasury account. Such cumulative amounts are reported at the end of any period, in this case, the first half of the year. These have been reconciled and cannot be misinterpreted.

Madam Speaker, information on revenue collection is available to the public for their review and should there be any questions or queries, citizens are free to contact the Ministry of Finance and National Planning to give any clarifications.

Madam Speaker, with that, I will be very delighted to take questions from hon. Members.

I thank you.